Using RRSPs before retirement

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Like many other countries, Canada has a government incentive to encourage personal saving for retirement. Most Canadians are aware of the benefits of RRSPs (registered retired savings plans), both the immediate tax advantage and the tax-sheltered compounding of capital. However, not everyone is in a position to save in this manner, nor is the money saved always used as a source of income in retirement. Despite the consequences of withdrawing money from RRSPs (savings are reduced and tax must be paid), many people do just that. This article uses two different sources to examine premature RRSP withdrawals[1] between 1993 and 2001, looking at whether major life events such as a marital separation, death of a spouse, or loss of a job affect this behaviour (see *Data sources and definitions*).

RRSPs constitute an essential component of Canada's retirement income system, especially for those whose income from government-sponsored retirement programs alone will make it difficult for them to maintain the same standard of living (see *Canada's retirement income system*). Understanding who uses RRSPs, and who needs or opts to withdraw funds from them, can help identify those who may not be financially prepared for retirement.

Many withdraw funds from RRSPs

Close to two-thirds of taxfilers aged 20 to 59 as of the end of 1992 contributed to an RRSP at least once between 1993 and 2001. However, during this same period, over one-quarter made at least one withdrawal (Table 1). Taking those withdrawing as a percentage of those known to have invested in an RRSP (because they made a contribution or a withdrawal over this period), the withdrawal rate jumps to 39%.[2]

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Decidedly, income is a factor. Just 9% of taxfilers in the lowest income decile withdrew money over the period. This increased to just over 30% in each of the 6th to 9th income deciles. Not surprisingly, lower-income people are also much less likely to contribute to an RRSP. As a percentage of those known to have an RRSP, three-quarters in the lowest decile, and over half in the second lowest, withdrew money. Not only are lower-income people less likely or able to save, they are much more likely to make withdrawals.

For many in the lowest income deciles, income from the Old Age Security/Guaranteed Income Supplement, and the Canada and Quebec Pension Plans will more than replace pre-retirement earnings (see *Earnings replaced by OAS/GIS and C/QPP*). Hence, additional income from RRSPs may not be required to maintain their standard of living. Since this is unlikely

Table 1: Taxfilers making RRSP contributions or withdrawals in at least one year

		Withdrawers	
	Contributors	Taxfilers	RRSP holders*
Income decile		%	
Total	**64.7**	**26.4**	**38.9**
Lowest	4.3	9.0	75.7
Second	14.8	12.1	56.5
Third	26.7	15.5	48.5
Fourth	44.1	21.6	44.3
Fifth	60.8	27.8	43.2
Sixth	71.8	31.6	42.3
Seventh	79.7	34.2	41.6
Eight	85.7	33.8	38.6
Ninth	90.1	31.1	34.1
Highest	94.9	25.1	26.3

Source: Canada Revenue Agency, PA/RRSP file, 1993-2001
** Contributed or withdrew from 1993 to 2001.*

Data sources and definitions

The **Pension Adjustment/Registered Retirement Savings Plans** (PA/RRSP) **file** was created by Statistics Canada from information provided by the Canada Revenue Agency. This longitudinal file contains basic demographic information for every taxfiler, as well as information about their participation in registered pension plans (RPPs) and RRSPs (contributions and withdrawals for RRSPs). The file is the only source of longitudinal information on savings for retirement through these two programs. This analysis looked at the years 1993 to 2001.

The **Survey of Labour and Income Dynamics** (SLID) is a longitudinal household survey designed to capture changes over time in the economic well-being of individuals and families. Individuals are interviewed annually for six years to collect information about their labour market experiences, income, and family circumstances. The first reference year was 1993. A second panel of respondents was introduced for 1996, halfway through the life span of the first. When the first panel ended, a third one began for the reference year 1999. This pattern of rotating, overlapping panels will continue, with a new panel every three years. Each panel comprises approximately 15,000 households, for a total of about 31,000 adults aged 16 and over.

Who is included?

This analysis focused on the population 20 to 59 years of age—those most likely to be receiving employment income and therefore eligible to contribute to RRSPs. Many under 20 were still in school and many over 59 already retired. Including these ages could distort the data. (Information from SLID for the year 2001 indicates that only about one-third of those 16 to 19, and 13% of those over 59, reported their major activity as 'working' or 'looking for work.') A further refinement excluded anyone with pension income (OAS/GIS, C/QPP, RRSP or RPP). An income tax return (T1) needed to have been filed in 1993 and 2001 but could have been missing in some of the intervening years. If so, income and RRSP contributions or withdrawals were assumed to be zero.

For tables covering the entire periods, age was determined as of the end of 1992. For those tables with information for each year, age was determined as of the end of the year in question.

Because SLID excludes the territories, these were also excluded from the PA/RRSP file.

Life events

Data for all seven possible three-year periods between 1993 and 2001 were used (starting with 1993 to 1995 and ending with 1999 to 2001). The results for the seven periods were then aggregated.

The population at risk was identified according to the situation at the end of the first year of the three-year period. In defining this population, it would have been desirable to include the criterion that the person had money in an RRSP account, but this information was not collected.

For purposes of this analysis, the life event would have occurred in the second year of the period, and the RRSP withdrawal would have taken place during one of the last two years.

The analysis focused only on major income earners (MIE) of economic families at the end of the first year, and their spouses or common-law partners. RRSP withdrawals, if any, were for the individual—in this case either the MIE or the spouse. Further analysis could be done to take into account RRSP withdrawals by either the MIE or the spouse following these life events.

Separation or divorce
Population at risk: Persons living with a spouse; the analysis was done separately for the MIE and the spouse of the MIE.

Definition of event: Couple were living together at the end of the first year but not at the end of the second year.

Death of a spouse
Population at risk: Persons living with a spouse; the analysis was done separately for the MIE and the spouse of the MIE.

Definition of event: Couple were living together at the end of the first year, but one of them died during the second year.

Involuntary job loss
Population at risk: Persons with a job; the analysis was done separately for the MIE (with or without a spouse) and any spouse of the MIE.

Definition of event: Person had a job at the end of the first year but lost their job involuntary (i.e., did not quit) during the second year. The job lost was the person's main job.

Returning to school full time
Population at risk: Persons who were not full-time students; the analysis was done separately for the MIE (with or without a spouse) and any spouse of the MIE.

Definition of event: Person was not a full-time student during the first year but became one during the second year.

RRSP withdrawal: The use of RRSP funds as part of the Lifelong Learning Plan (LLP) was excluded since this is a feature of the RRSP program. The LLP allows RRSP withdrawals of up to $20,000 to finance training or education. No tax penalty is incurred as long as the money is repaid within a prescribed period.

Buying a house
Population at risk: Persons who did not own their dwelling; the analysis was restricted to MIEs, since the spouse would have experienced the same life event.

Definition of event: Residence was not owned at the end of the first year but was owned at the end of the second year.

RRSP withdrawal: The use of RRSP funds as part of the Home Buyers Plan (HBP) was excluded since this is a feature of the RRSP program. The HBP plan allows first-time home buyers to withdraw up to $20,000 from their RRSP with no tax penalty for the purchase of a home as long as they repay their RRSP within a prescribed period.

Birth of a child
Population at risk: Persons living with a spouse; the analysis was restricted to MIEs, since the spouse would have experienced the same life event.

Definition of event: Couple had or adopted a child during the second year.

Starting a business
Population at risk: No extra restrictions were placed on this population; the analysis was for MIEs only, since in many situations the spouse would have experienced the same life event.

Definition of event: Person started a self-employed job during the second year.

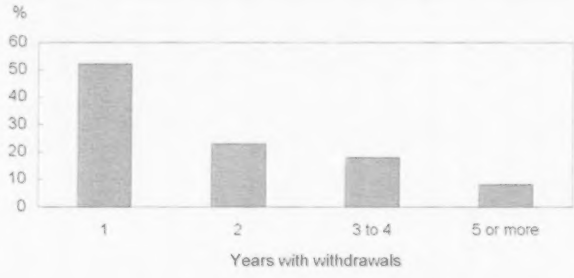
to be the case for those in the higher income deciles, the implications of taking money out of an RRSP may be greater. However, although the percentage of RRSP holders who withdrew money declines somewhat as income increases, even in the seventh income decile over 40% made a withdrawal at least once between 1993 and 2001.

Many withdraw more than once

The PA/RRSP file shows not only whether a withdrawal was made but also whether it occurred more than once. Indeed, almost half (48%) of those withdrawing money did so in more than one year, while a quarter removed funds in at least three of the nine years (Chart A). These people may have had unexpected expenses, or they may not have viewed their RRSP as a means of long-term savings, using it instead to reduce current taxes or set aside money for periods of lower income (LeBlanc 2002). The self-employed are particularly subject to income volatility and may be more likely to use RRSPs in this way (Palameta 2003). Unfortunately, the PA/RRSP file cannot identify the self-employed or the reason for the withdrawal.

The use of RRSPs to smooth income is clear: People who frequently withdraw money still make contributions—even more often than others. Over half of those who made three or more withdrawals contributed in at least five of the nine years. A much lower proportion (38%) of all taxfilers contributed that frequently (Table 2).

Chart A: Almost half of those withdrawing from RRSPs between 1993 and 2001 did so in more than one year.



Source: Canada Revenue Agency, PA/RRSP file

Are withdrawals repaid?

Do frequent withdrawers contribute more often in an attempt to pay back the money they have withdrawn? This is difficult to determine since reasons for contributing or withdrawing are not available. However, it is possible with the PA/RRSP file to see whether, in the time frame of this study, people returned the amounts they withdrew by making subsequent contributions. All contributions and withdrawals were converted to 2001 dollars, since simply returning the exact dollar amount of the withdrawal would not be enough to account for the return the amount would have

Table 2: Pattern of RRSP withdrawals and contributions

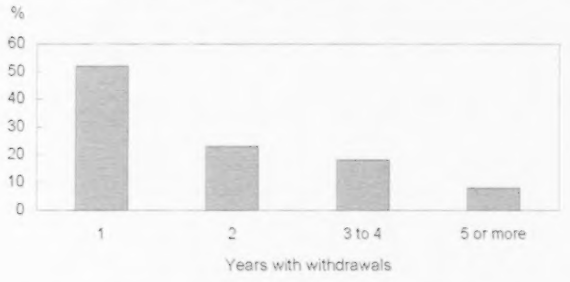
	Years of contribution											
	Total		Zero		One		Two		3 or 4		5 or more	
	'000	%	'000	%	'000	%	'000	%	'000	%	'000	%
Years of withdrawal	**11,414**	**100**	**4,029**	**35**	**920**	**8**	**756**	**7**	**1,329**	**12**	**4,381**	**38**
None	8,401	100	3,672	44	562	7	430	5	742	9	2,996	36
One	1,562	100	230	15	220	14	176	11	283	18	653	42
Two	694	100	66	10	75	11	83	12	149	21	322	46
Three or more	757	100	60	8	64	8	68	9	155	21	410	54

Source: Canada Revenue Agency, PA/RRSP file, 1993-2001

earned had it remained in the RRSP. Repaying amounts withdrawn places an individual in a different situation from someone not making a withdrawal: The latter could continue to make further contributions and accrue earnings on them.[3]

Although many of those withdrawing money from an RRSP make subsequent contributions, it can take years to repay the withdrawal. Three years after withdrawing from their RRSP, just one-quarter had repaid the amount. This increased to about one-third after five years, but was still under 40% by the end of the study period (Chart B).

Chart B: Even eight years after a withdrawal, less than 40% had repaid their RRSP.



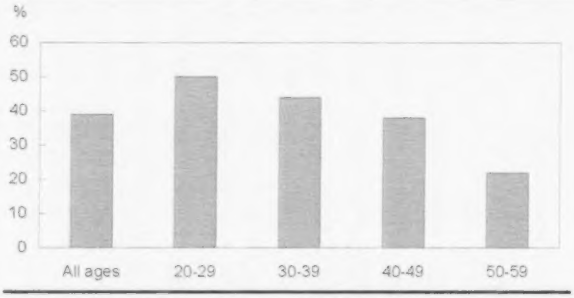
Source: Canada Revenue Agency, PA/RRSP file

Those who were older (50 to 59) when they made their first withdrawal in 1993 were least likely to have returned the money eight years later. (Chart C). By 2001, just 22% were back to the situation they had been in prior to the withdrawal in 1993, not taking into account any additional contributions that could have been made, along with accrued earnings. For older individuals, this could have serious implications in terms of the amount of income they can generate from their RRSP.

All ages equally likely to make withdrawals

Even though older people are closer to retirement, they are just as likely to take money out of their RRSPs. Approximately one-quarter of those in all age groups, from 20 through to 59 as of the end of 1992, made a withdrawal between 1993 and 2001. In fact, older withdrawers were somewhat more likely to make multiple withdrawals, although the difference is not

Chart C: Only 22% of those 50 to 59 making a withdrawal in 1993 had repaid it by 2001.



Source: Canada Revenue Agency, PA/RRSP file

pronounced. Close to 29% of withdrawers aged 50 to 59 made at least three withdrawals, compared with 23% of those 20 to 29 (Table 3).

Withdrawers up sharply over the period

Although the proportion of taxfilers taking money out of their RRSP in 2001 may not appear to be large at 6.7%, it was almost double the 3.8% in 1993. In comparison, the proportion contributing to RRSPs rose only 18.4% over the period (Table 4). In 2001, just over one million withdrew money and 5.7 million contributed.

While the number of people withdrawing increased, the median withdrawal amount fell significantly—over 46%.[4] The median withdrawal in 2001 was $1,600. In comparison, the median contribution increased 11% to $2,600.

Table 3: RRSP withdrawals by age*

	All ages	20-29	30-39	40-49	50-59
	Taxfilers (%)				
Withdrawals	26.4	26.3	27.3	25.6	23.8
One	13.7	14.4	14.0	12.7	11.6
Two	6.1	5.9	6.2	6.2	5.4
Three or more	6.6	6.0	7.1	6.7	6.8
Withdrawals	Withdrawers (%)				
One	51.8	54.8	51.2	49.5	48.8
Two	23.0	22.5	22.8	24.1	22.7
Three or more	25.1	22.7	26.0	26.3	28.5

Source: Canada Revenue Agency, PA/RRSP file, 1993-2001
** As of the end of 1992.*

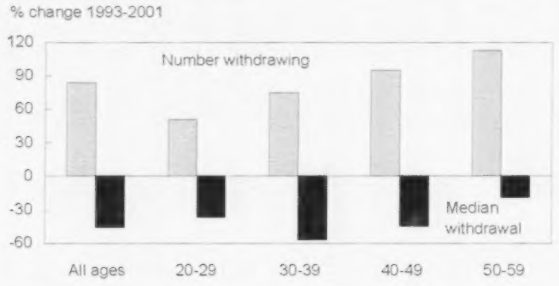
Table 4: RRSP withdrawers and contributors

	Taxfilers	
	'000	%
1993		
Withdrew	570	3.8
Contributed	4,509	30.4
1994		
Withdrew	620	4.1
Contributed	4,739	31.3
1995		
Withdrew	743	4.8
Contributed	5,182	33.8
1996		
Withdrew	805	5.2
Contributed	5,477	35.4
1997		
Withdrew	863	5.5
Contributed	5,623	36.0
1998		
Withdrew	929	5.9
Contributed	5,627	35.7
1999		
Withdrew	939	6.1
Contributed	5,645	36.6
2000		
Withdrew	1,067	6.6
Contributed	5,800	35.9
2001		
Withdrew	1,049	6.7
Contributed	5,657	36.0
	%	
Change 1993-2001		
Withdrew	84.0	76.3
Contributed	25.5	18.4

Source: Canada Revenue Agency, PA/RRSP file, 1993-2001

These trends varied greatly by age (Chart D). Those 50 to 59 experienced a more modest decline in the median withdrawal amount (-19%), together with the biggest jump in the number of persons withdrawing. As a result, the total amount withdrawn by people in this age group increased 83%. This is consistent with the results of an earlier study, which looked at the period from 1991 to 1994 (Frenken 1996). In contrast, the increase in the amount withdrawn by younger age groups was much smaller (Chart E). This was due to both a more modest increase in the number withdrawing and a much larger drop in the median withdrawal. This was most pronounced for those 30 to 39; their median withdrawal was down 57%.

Chart D: Number withdrawing from RRSP up, but median withdrawal down.

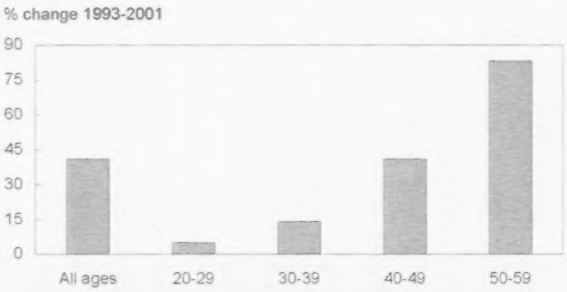


Source: Canada Revenue Agency, PA/RRSP file

Younger individuals withdraw smaller amounts

Amounts withdrawn shed some light on the reasons for differences between age groups. Although more younger people have been withdrawing funds from their RRSP, they tend to withdraw much smaller sums than in the early 1990s. This is most striking for those 30 to 39: In 1993, just 8% took less than $500 out of their RRSP, compared with just over 30% in 2001 (Table 5). Although less pronounced, the same trend can be seen for those 20 to 29. Perhaps younger age groups are perceiving saving for retirement as important and attempting to minimize the amounts they remove. Certainly, earlier studies have shown that more young people are investing in RRSPs (Aldridge 1997) and that, income and other variables held

Chart E: Increase in total withdrawn from RRSPs much greater for those 50 to 59.



Source: Canada Revenue Agency, PA/RRSP file

Canada's retirement income system

Old Age Security (OAS) guarantees a minimum income to all persons 65 or older who meet prescribed residency requirements, regardless of work history. The benefit is gradually reduced if net income exceeds a certain amount (about $55,300 in 2001) and eliminated altogether when income reaches about $90,000. Additional benefits are provided to low-income seniors through the Guaranteed Income Supplement (GIS) and the Allowance. The latter is paid to spouses/partners (aged 60 to 64) of OAS pensioners. Benefits are paid from the federal government's consolidated revenue fund; specific contributions to this program are not required.

Canada and Quebec Pension Plans (C/QPP) are intended to replace a portion of employment earnings. The plans cover almost all workers and are compulsory for those 18 and over. Both employers and employees contribute (the self-employed pay both shares), providing a benefit equal to about 25% of the average wage (as measured by Statistics Canada's Survey of Employment, Payrolls and Hours), up to a specified maximum. This benefit is paid at 65, although individuals can opt to receive it as early as 60 (reduced) or as late as 70 (augmented).

OAS/GIS and C/QPP are designed to provide a basic income for seniors. As of January 2001, a single person 65 or older with no other income received an annual OAS/GIS benefit of about $11,330; if the person was also receiving C/QPP, this increased to just under $16,000.

In 2001, the median earnings of individuals heading into retirement (aged 45 to 54) were $30,842; OAS/GIS and C/QPP would have replaced about 50%. (This calculation was done assuming people had contributed to the C/QPP for the maximum required years and therefore likely inflates the replacement rate.) For couples with at least one partner aged 45 to 54, median earnings in 2001 were $64,962. These two programs would replace just over 40% of those earnings.

The percentage of earnings required to maintain a similar standard of living in retirement depends on a number of factors and can vary considerably, depending on the circumstances of the individual or couple. Financial planners often use 70% as a rule of thumb (HRDC 2001), although this has been the subject of much debate. The income provided by OAS/GIS and C/QPP would give many an income replacement rate far below this percentage. This increases the importance of the third component of the retirement income system:

Employer pensions and personal savings: Employer-sponsored registered pension plans (RPPs) are commonly used by employers to provide their employees with an income in retirement. However, employers are not obligated to provide a plan, and only about a third of employees belong to one. Benefits vary widely. Contributions are made by the employers and, if the plan is contributory, by the employees as well.

Employees who do not belong to RPPs and the self-employed must save for retirement on their own if they wish to supplement income from OAS/GIS and C/QPP. Registered retirement savings plans (RRSPs) provide one means to do this. To encourage saving, no tax is paid on either the amount contributed (to a prescribed maximum) or on the investment return on these funds. However, tax is paid when funds are withdrawn.

RRSPs, therefore, are a critical component of the retirement income system. Withdrawing money from them has consequences: Tax is immediately payable and retirement savings are diminished.

Maximum monthly and annual benefits from OAS/GIS and C/QPP for persons 65 or older, January 2001

	Monthly	Annual
	$	
C/QPP – age 65	775	9,300
OAS	431	5,176
GIS – single person	513	6,152
GIS – spouse of OAS pensioner	334	4,007
OAS + GIS – single person, no other income		11,328
OAS + GIS – couple, both receiving GIS, no other income		18,367
OAS + C/QPP + GIS, reduced – single person, no other income		15,978
OAS + C/QPP – couple, both receiving maximum C/QPP, income too high for GIS, no other income		28,953

Note: OAS/GIS annual amounts assumes that the monthly rate in effect in January applies for the entire year.

constant, they are more likely than older people to contribute to them (Palameta 2003). Another factor could be the stronger economy at the end of the decade, which may have reduced the need to use savings from RRSPs.

That older individuals more commonly withdraw larger amounts may not seem surprising, given they would have accumulated more in their RRSP. What is striking for those 50 to 59 is the amounts being withdrawn. In 2001, close to one-third of withdrawers removed at least $6,000—this at a time in their lives when returning money to an RRSP could prove quite difficult and, as shown, is not likely to happen. This age group represented 20% of all those withdrawing money in 2001, up slightly from 17% in 1993. What would make people take this action at this stage

Table 5: RRSP withdrawals, by age*

	All ages	20-29	30-39	40-49	50-59
	% of withdrawers				
1993					
Less than $500	8.2	16.2	8.4	6.1	4.7
$500 to $999	9.4	17.6	10.0	6.6	6.1
$1,000 to $1,999	19.1	26.5	21.7	16.2	13.0
$2,000 to $2,999	14.2	14.4	16.0	12.5	13.3
$3,000 to $3,999	10.0	8.5	10.6	10.1	10.0
$4,000 to $4,999	7.0	5.3	7.1	7.4	7.4
$5,000 to $5,999	7.5	3.8	6.8	8.7	9.8
$6,000 to $9,999	10.9	5.9	10.2	12.6	14.3
$10,000 or more	13.8	2.5	9.3	19.9	21.7
1997					
Less than $500	15.5	25.3	19.7	11.5	7.4
$500 to $999	11.2	17.4	12.7	9.1	7.3
$1,000 to $1,999	18.8	24.2	19.5	17.3	16.3
$2,000 to $2,999	11.8	12.4	12.1	11.4	11.4
$3,000 to $3,999	8.2	6.6	8.0	8.9	8.8
$4,000 to $4,999	5.9	3.7	5.5	6.2	7.7
$5,000 to $5,999	6.4	3.3	5.6	7.6	8.4
$6,000 to $9,999	9.7	4.2	8.3	11.6	13.4
$10,000 or more	12.4	2.5	8.6	16.5	19.8
2001					
Less than $500	22.7	31.5	30.2	18.9	11.1
$500 to $999	13.4	20.8	15.7	11.5	8.0
$1,000 to $1,999	17.9	21.2	18.1	17.9	15.7
$2,000 to $2,999	9.7	10.6	8.9	10.0	10.2
$3,000 to $3,999	6.6	5.2	5.7	7.2	8.2
$4,000 to $4,999	6.0	3.7	5.1	6.6	7.6
$5,000 to $5,999	4.7	2.0	4.1	4.9	6.9
$6,000 to $9,999	8.5	3.9	6.4	9.9	12.9
$10,000 or more	10.4	1.3	5.9	13.3	19.0

Source: Canada Revenue Agency, PA/RRSP file
** As of the end of 1992*

of their life? The Survey of Labour and Income Dynamics provides information on changes to individual and family circumstances that could precipitate the removal of money from an RRSP.

Life events linked to withdrawals

Major life events often have financial implications, and RRSP withdrawals may be a source of needed cash. Seven life events were identified. The basic approach was to examine persons aged 20 to 59 who experienced an event and then determine the proportion making a withdrawal in either the same or following year. This proportion was then compared with the 'at risk' population. It is not possible to conclude that the RRSP withdrawal was caused by the life event, only that it happened around the same time.

This analysis looked both at whether the life event was more likely to result in an RRSP withdrawal (Table 6) and, if a withdrawal was made, whether it was more likely to be large ($10,000 or over).

Results suggest that certain life events are linked to the need for additional funds, and for some people funds appear to have come from their RRSPs. It is worth looking briefly at the results for each of the defined events.

Death of a spouse: The death of a spouse had the greatest effect on RRSP withdrawals; those who lost a spouse were much more likely to withdraw funds. And, among persons making a withdrawal, those whose spouse had died withdrew large amounts ($10,000 or more) more frequently than those whose spouse was still alive. The death of a spouse is a unique

Earnings replaced by OAS/GIS and C/QPP*

	OAS	GIS	C/QPP	Total income from OAS/GIS and C/QPP	Employment income replaced by OAS/GIS and C/QPP
Earnings of individual prior to retirement			$		%
$0	5,176.32	6,151.80	...	11,328.12	...
$5,000	5,176.32	5,526.80	1,250.00	11,953.12	239
$10,000	5,176.32	4,901.80	2,500.00	12,578.12	126
$15,000	5,176.32	4,276.80	3,750.00	13,203.12	88
$20,000	5,176.32	3,651.80	5,000.00	13,828.12	69
$25,000	5,176.32	3,026.80	6,250.00	14,453.12	58
$30,000	5,176.32	2,401.80	7,500.00	15,078.12	50
$35,000	5,176.32	1,776.80	8,750.00	15,703.12	45
$40,000	5,176.32	1,501.80	9,300.00	15,978.12	40

** For unattached individuals at 65 years old, based on rates as of January 1, 2001.*
Note: OAS assumes residency requirements met, C/QPP assumes contributions made for maximum required period.

Table 6: Population at risk with RRSP withdrawals

	Made RRSP withdrawal		Withdrew $10,000 +	
	Life event		Life event	
	Yes	No	Yes	No
Life event		%		
Separation or divorce – MIE	11.9	9.9	16.0	19.1
Separation or divorce – spouse of MIE	9.7	8.3	12.0	16.1
Death of spouse – MIE	31.2	10.0	55.2	18.8
Death of spouse – spouse of MIE	28.3	8.3	81.4	15.7
Involuntary job loss – MIE	10.9	9.7	29.9	14.5
Involuntary job loss – spouse of MIE	9.5	9.0	20.7	15.8
Return to school full time – MIE	10.0	9.5	16.4	17.1
Return to school full time – spouse of MIE	10.9	8.3	8.8	16.2
Buying a house – MIE	8.4	7.0	16.3	11.9
Birth of a child – MIE	12.9	9.8	8.1	19.7
Starting a business – MIE	11.5	9.1	27.8	15.6

Source: Survey of Labour and Income Dynamics, 1993-2001
Note: Spouse includes common-law partner.
MIE = major income earner.

event in that it is generally unexpected and may often occur before adequate financial planning has taken place. In such a situation, RRSPs could provide a needed or useful source of funds.

Separation or divorce: Although the proportion making RRSP withdrawals was higher for separated or divorced individuals, the difference from those at risk was smaller than for most of the other life events.

Involuntary job loss, starting a business: Involuntary job loss did not have an appreciable effect on the likelihood of making an RRSP withdrawal, while starting a business was somewhat of a factor. However, for those withdrawing money, both events were more frequently associated with large withdrawals.

Birth of a child: This event had little effect on the proportion of people making an RRSP withdrawal. Interestingly, the proportion of withdrawers taking out large sums was considerably lower than for those without a new baby. Those having children are generally younger, and this age group is much less likely to make large RRSP withdrawals.

Buying a house: Although this event had only a slight effect on the likelihood of withdrawing from an RRSP, those who did tended to withdraw larger amounts. Withdrawals under the Home Buyers Plan (HBP) were excluded. The HBP allows people to withdraw up to $20,000 with no tax penalty to purchase a home, as long as they return the money to their RRSP within a prescribed period. However, the HBP applies only to first-time home buyers. These larger amounts may have been withdrawn by people who did not qualify for the HBP or who required amounts above the prescribed limit.

Returning to school full time: For the major income earner, this event had little effect on RRSP withdrawal behaviour, except if a spouse was returning to school. Student loans are the more common method of financing this activity, making it somewhat more difficult to interpret these findings. Withdrawals under the Lifelong Learning Plan were not considered here, although this program would have had little effect on the analysis since it came into effect only in 1999.

Summary

Although RRSPs are commonly used to accumulate retirement savings, many people take money out before retirement. The practice is not restricted to lower-income groups: Over 40% of those in the middle income deciles known to have RRSPs made withdrawals between 1993 and 2001.

Approximately one-quarter of taxfilers in all age groups made withdrawals.

The likelihood of returning withdrawals to an RRSP is not high. Overall, less than 40% of those who made a withdrawal in 1993 had repaid the money by 2001. The proportion was even lower for the older age groups (22% for those 50 to 59).

From 1993 to 2001, the number of people making withdrawals increased substantially (84%). However, the median withdrawal decreased markedly (-46%), largely because of the much smaller amounts being withdrawn, particularly by those aged 20 to 39.

Close to one-fifth of those 50 to 59 who withdrew funds from their RRSPs took out relatively large amounts ($10,000 or more). This age group was also less likely to repay these withdrawals.

Several life events were associated with an increase in the likelihood of withdrawing money from an RRSP. People who lost a spouse made a withdrawal more frequently, and a large one, and people who involuntarily lost their job or started a new business more frequently withdrew substantial sums ($10,000 or more).

Perspectives

Notes

1 Other than through the Home Buyers Plan (HBP) or the Lifelong Learning Plan (LLP). The withdrawals referred to here are those on which tax is payable in the year the withdrawal is made. This would include defaults on repayments to the HBP and LLP.

2 This would exclude those who had an RRSP but did not contribute or withdraw money from it between 1993 and 2001.

3 This is assuming they had the available means and RRSP room. (RRSP room is the maximum RRSP contribution that can be deducted from income for income tax purposes.) For 2001, up to 18% of the previous year's earned income, to a maximum of $13,500, could be contributed, less an adjustment for those belonging to an registered pension plan. Unused room from previous years can be added to this amount.

4 Median withdrawals are stated in 2001 dollars.

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